



THE BUDGET SOLUTION: 2009-2010

SOLVING THE ENTIRE PROBLEM

THE GOVERNOR STOOD FIRM, REFUSING TO KICK THE CAN DOWN THE ROAD

This budget solution includes \$16.1 billion in spending reductions, which on top of the \$15 billion made in February amounts to approximately \$31 billion dollars – roughly a third of our entire state budget. While there are some one-time solutions in the budget agreement, the Governor fought to minimize those one-time moves, and also to stave off the alternative of higher taxes. There are no tax increases in this budget agreement. Below is the math of how the Governor and legislative leaders agreed to solve the \$24.2 billionⁱ deficit.

Expenditure Reductions

Total: \$16.1 billion

- **Education:** 1) Recapturing savings previously thought lost by missing June 30 deadline and recalculating Prop 98 accordingly (and therefore the overall size of our problem); this means the additional increase of \$1.6 billion in the Prop 98 guarantee for 2009-10 that we'd expected does not happen. 2) Regional Development Agency shift to schools. 3) Additional cuts to UC and CSU funding (Just under \$2 billion total for 2008-09 and 2009-10).
 - \$9.3 billion
- **Corrections:** Leaders agreed upon a reduction level in corrections, the policy on how to get there will be determined upon the legislature's return in August.
 - \$785 millionⁱⁱ
- **General Government:** Suspension of COLAs; leveraging state assets (no current-year savings); consolidating and reorganizing boards and commissions including elimination of the Integrated Waste Management Board; IT procurement reform.
 - \$1.7 billion
- **State Employee Compensation:** Third furlough day adopted; eliminate rural health care; score health care savings.
 - \$820 million
- **Health and Human Services:** Long-term CalWORKs reforms including graduated sanctions and twice-yearly check-ins; Medi-Cal eligibility changes and improved care coordination; IHSS fraud initiative including fingerprinting; Healthy Families eligibility changes; etc.
 - \$3.0 billion
- **Veto:**
 - \$.489 million

Fund Shifts

Total: \$1 billion

- These include: CalFIRE interagency agreement with the Legislature and transportation spillover.

Revenues

Total: \$3.5 billion

- These include: Optional personal income tax withholding changes; tax enforcement; SCIF proposal; special fund transfers.

Borrowing

Total: \$2.2 billion

- These include: Proposition 1A suspension; loan from State Highway Account; various loans and fund shifts to keep state parks open.

Other

Total: \$1.4 billion

- June to July state payroll and health premiums delay.

Total Solution: \$24.2 billion

- **Reserve: \$500 million**

Reforms

Total: \$2.3 billion (\$2 billion General Fund)

Governor Schwarzenegger insisted that this budget solution could not be about only our short-term cash needs – it also must be about structural reforms to put our state budget on more solid footing in future years. The Governor worked with legislators to include in this solution structural reforms, many of which he has been fighting for since he was first elected to office. Some of these reforms will show significant savings in the current fiscal year (and much more in out-years. These include:

- **Consolidating and Eliminating Boards and Commissions.** Including elimination of the Integrated Waste Management Board.
 - \$50 million in 2009-10
- **Rooting Out Fraud From IHSS.** Putting in place a fraud prevention program that includes background checks (including fingerprinting) for service providers.
 - \$250 million in 2009-10 General Fund (\$546 million total funds)
- **Reforming CalWORKs.** For short-term savings, focusing available funding on those who are meeting the work requirements.
 - \$510 million in 2009-10
- **Corrections Custody and Parole Reforms.** Of the \$1.2 billion in reductions that legislative leaders agreed to for the 09-10 fiscal year the goal is to have roughly half of those reductions come from parole and corrections custody reforms.
 - \$641 million in 2009-10

ⁱ Note: The size of the problem was adjusted from \$26.3 billion to \$25.1 billion (which includes target reserve of \$2 billion) because: 1) the state is able to capture the \$3 billion in savings from 2008-09's Proposition 98 allocation previously believed to have been lost on June 30, which reduces the size of the 2009-10 guarantee by \$1.6 billion; and 2) June revenues came in \$536 lower than projected. Additionally, we did not reach the desired reserve of \$2 billion, instead attaining reserve of just \$918 million, meaning the Governor and legislators solved for \$24.2 billion.

ⁱⁱ This, in addition to the \$400 million blue-penciled by the Governor in the February budget, equals an approximate \$1.2 billion spending reduction in Corrections for the 2009-10 fiscal year.